# Public Service Management Pension Plan Board

Annual Report
1988

Alberta

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Alberta

PUBLIC SERVICE MANAGEMENT PENSION PLAN BOARD

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The Honourable Dick Johnston
Provincial Treasurer

Sir:

I have the honour to submit to you the third annual report of the Public Service Management Pension Plan Board for the period January 1, 1988 to December 31, 1988. The report outlines the role and responsibilities of the Public Service Management Pension Plan Board and the activities undertaken during the period under review.

Respectfully submitted,

J. E. Faries
Chairman

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# Introduction

The calendar year 1988 is the third full year of operation of the Public Service Management Plan Board. This Board was established effective November 1, 1985 under the Public Service Management Pension Plan Act. The main responsibilities of the Board are to hear appeals of administrative decisions made on pensions, and to advise the Minister responsible for public service pensions on matters relating to the Plan.

The Honourable Dick Johnston, Provincial Treasurer is the Minister responsible for public service pensions. The Plan is administered by Alberta Treasury, Payroll and Pensions Division.

The Board's appellate role has evolved with a trend toward more detailed presentation of arguments by each party. Procedure, however, remains informal permitting easy access to right of appeal by participants. Several appeals have been summarized in this report.

In its advisory role, the Public Service Management Pension Plan Board has provided advice to the Minister in the context of his ongoing review of the government guaranteed pension plans. In July 1988, the Minister advised the Boards of the government administered pension plans that he would not be proceeding with major pension reforms at this time. Advice provided by the Public Service Management Pension Plan Board on a number of significant issues is outlined in this report.

# The Board

## Members

A Board of five members served throughout 1988. Terms of members with expiry date of April 1, 1988 were extended to April 1, 1992. Brief biographies are provided on the following page.

## Program Delivery

With the exception of the Chairman, Board members serve on a part-time basis. The Chairman also serves as Chairman of the Boards of four other government administered pension plans. A small staff provides professional and administrative services to this Board and to the other Boards.

As in 1987, a seminar was held in 1988 to provide information to members of the five Pension Boards and to recognize those departing from the Boards. Various employee and employer representatives, and personnel from Payroll and Pensions Division of Alberta Treasury also attended the seminar.

To assist the Board in its advisory role, employees, employers, and interested groups are encouraged to express their views and concerns on policy issues to the Chairman or their representative Board members. Where appropriate, presentations on an issue may be made to the Board as a whole.

The Board met seven times in the period under review. Board minutes are recorded but are not made public.

# Public Service Management Pension Plan Board Members as at December 31, 1988

**J. E. Faries**

Mr. Faries is Chairman of the Board and brings to the Board considerable background in pension policy and administration. He served over 15 years as Director of the Pension Administration. Mr. Faries was chairman and instructor for the Employee Benefit Administration Certificate program of the University of Alberta for a number of years. Currently he holds several senior positions on other boards and community organizations. His term of office expires on April 1, 1992.

**A. F. (Chip) Collins**

Mr. Collins, the government representative, is Vice-Chairman of the Board. He served as Deputy Provincial Treasurer from 1972 until his retirement in 1984. Mr. Collins brings to the Board extensive financial, administrative, and public service experience. His term of office expires on April 1, 1991.

**B. Black**

Mr. Black began his career in the Manitoba Civil Service Commission. In 1979 he joined the Personnel Administration Office of the Alberta Government where he gained experience in the personnel and pay and benefits field. He has also worked as the Personnel Director in the Departments of Agriculture and Public Works, Supply and Services and is currently Executive Director of the Personnel Management Improvement Services Division in the Personnel Administration Office. His term of office expires on April 1, 1991.

**T. Forgrave**

Mr. Forgrave was appointed to the Board on January 8, 1987. He received his undergraduate and graduate education at the Universities of Western Ontario and Toronto. An ordained minister of the United Church of Canada, he has held various positions with the City of Edmonton. He is currently Assistant Deputy Minister, Municipal Administrative Services Division, Alberta Municipal Affairs. His term of office expires on April 1, 1991.

**C. J. Roth**

Born in Alberta and a graduate of the University of Alberta, Mr. Roth has had extensive involvement in government services including Agriculture, Transportation, and Economic Development and Trade. While in the private sector, Mr. Roth was involved in developing agricultural services with the Canadian Imperial Bank of Commerce. He is currently Deputy Minister, Planning and Services, Alberta Economic Development and Trade. His term of office expires on April 1, 1992.

# Applications and Appeals

## Provisions

The Act provides that application may be made to the Board for time limit extensions or change of benefit choice. It also provides that a party aggrieved by a decision of the Minister may appeal to the Board. The provisions of the Act dealing with applications and appeals, Sections 10 and 35 respectively, are reproduced for ease of reference in Appendix A.

Application may also be made to the Board for the extension of time limits under the reciprocal agreements with other pension authorities in Canada. The terms of each agreement vary. The following time limits generally apply: that the break in service between employers must be no more than three months, and that application for transfer must be made within one year of becoming employed with the new employer. Although the agreements allow for the extension of time limits by the importing Board, no guideline for the exercise of the Board's discretion is provided in the reciprocal agreements. The Board considers extenuating circumstances put forth by the applicant in making its decision.

## Procedure

A Notice of Appeal form, prescribed by the Minister, is normally provided with adverse administrative decisions. This form must be completed and submitted in filing an appeal. It may also be used for applications for time limit extensions.

Assistance to appellants is available from the Chairman's office. The individual may seek advice on what facts should be gathered and how they should be presented.

Though hearings are conducted in an informal manner, the Board adheres to the principles of natural justice and the duty to be fair.

The Board has authorized the Chairman to reimburse appellants and applicants appearing before the Board for reasonable travel and subsistence expenses. This ensures that all appellants and applicants have the opportunity to appear and present their cases irrespective of their place of residence.

## Summary of Cases

During the period under review, the Board decided nine applications and appeals, comparing to 10 dealt with in the previous year. A summary of cases decided is as follows:

Public Service Management Pension Plan Board
January 1, 1988 - December 31, 1988

| Category | Number | Number Granted or Varied |
|---|---|---|
| Time Limit Extensions (Section 10) | 0 | - |
| Reciprocal Transfer | 3 | 2 |
| Appeals (Section 35) | 6 | 5 |
| Total | 9 | 7 |

**Time Limits Under Reciprocal Agreements**

The three applications in 1988 for extensions of the three month time limit on break in service are summarized below. The Board granted two of the three applications.

Application #1

The individual was laid-off from his position with the reciprocal employer with five months of severance pay in lieu of notice. A five month break in service resulted from unfavorable job market conditions and a delay in the recruitment process. The Board granted the application.

Application #2

The individual left the reciprocal employer to accept a temporary project position in the Alberta public service, and commenced contributions to the Public Service Pension Plan. He did not apply to transfer service from the Teachers Retirement (TRF) to the Public Service Pension Plan. After approximately eight months he was promoted to a management position and commenced contributions to the Public Service Management Pension Plan. He transferred the eight months of Alberta public service to the Public Service Management Pension Plan and also applied for transfer of his TRF service under the reciprocal agreement. This eight month "break in service" between the importing pension plan and the exporting pension plan exceeded the three month break allowed under the reciprocal agreement. The

participant put forth the argument that as he had transferred his pensionable service under the Public Service Pension Plan to the Public Service Management Pension Plan, that there was no break in service. On this basis, the Board extended the time limit.

Application #3

The individual had been terminated from the reciprocal body without notice. Immediately after termination he applied for his current position with the Alberta public service. The recruitment procedure took longer than usual, resulting in a 4 1/2 month break in service. The Board noted that no commitment in respect of employment with the Alberta public service was made until after the individual had terminated from the reciprocal employer. It, therefore, found insufficient extenuating circumstances and denied the application.

**Appeals Under Section 35 of the Act**

In 1988 the Public Service Management Pension Plan Board heard six appeals under Section 35 of the Act, two of which are summarized as follows:

Appeal #1

The participant requested retroactive participation in the Public Service Management Pension Plan for 14 months of service. This service was provided under a fee for service contract immediately prior to his employment. The Minister denied this request and also found the service ineligible for purchase as prior service. This decision was appealed by the participant.

The appellant's employer supported the appeal, stating that the 14 months would have been salaried service if a position had been available. The fee for service contract was put in place because of administrative and budgetary constraints. When the individual eventually became an employee, there was no change in his salary or duties.

In the Board's view there was an employee/employer relationship during the period of contract employment. Therefore the service was a period "during which a person is or was employed by an employer". The Board denied retroactive participation, but ruled that the service was eligible for purchase as prior service.

Appeal #2

An appeal was filed by a participant who had been promoted within the public service to a management position. The appeal was with respect to three years of service for which he had previously received a refund under the Public Service Pension Plan.

On application to purchase the service, the participant was charged both the employee and employer contributions for the service in accordance with Section 15 of the regulation. The participant appealed to pay the employee portion only. This is the costing basis which would have applied for rein-

statement of the service had he stayed in the Public Service Pension Plan. The appellant argued that he should have been informed of the consequence of not purchasing the prior service prior to joining the Public Service Management Pension Plan. On this basis the Board granted the appeal.

**Appeals to the Court of Queen's Bench**

Parties aggrieved by a decision of the Board under Section 35 of the Act may appeal to the Court of Queen's Bench within 30 days on a question of law or jurisdiction. One such appeal was made in 1988 by an appellant. In reviewing the Board's decision to deny the appeal, the Court of Queen's Bench ruled that the Board lacked jurisdiction to deal with the matter placed before it, and that the individual should seek a different remedy.

# Advisory Role

## Board's Recommendations

A review of the funding and policies relating to each of the pension plans guaranteed by the Province of Alberta was commenced in 1985 by Alberta Treasury. The Minister has advised the Pension Boards that their views will be taken into consideration during this review. In July 1988, the Minister notified the Boards that he would not be proceeding with major pension reforms at this time.

The Board has provided advice in respect of a number of significant issues which impact on the Plan. The following is an outline of the issues and recommendations made.

### Pension Reform

After 10 years of debate, new standards for private sector pensions were introduced in several jurisdictions in Canada. The Employment Pension Plans Act regulating private sector pension plans in Alberta became effective January 1, 1987. The Public Service Management Pension Plan was reviewed by the Board in light of these requirements. In November 1987, the Board recommended increased eligibility and earlier vesting for part-time continuous employees. It also recommended locking-in of pension benefits upon vesting, and incorporation of general portability on the basis prescribed for private sector pension plans.

### Funding for Current Service

Both the March 31, 1988 actuarial valuation and the previous valuation at March 31, 1985 disclosed a significant underfunding of the Public Service Management Pension Plan for current service. For reference, the March 31, 1988 results are summarized in Appendix B. In October 1986, based on the 1985 valuations, the Board recommended that both employee and employer contributions be increased by 1/2 percent per year for the next three years. In response, the Minister advised that increasing contribution rates is one of the issues being considered in the review of the government guaranteed plans. The Board reaffirmed its previous recommendation upon review of the March 31, 1988 actuarial results.

In the Board's view, contribution rates should ultimately rise to levels required for current service if the plan was a large private sector pension plan. An independent actuary commissioned by the Board advised that, in his opinion, the actuarial assumptions and method used for the actuarial valuations commissioned by Alberta Treasury were 'overly conservative' when measured against the Board's criterion. Based on this advice, the Board recommended to the Minister in September 1988 that an actuarial valuation utilizing less conservative actuarial assumptions and method be conducted to aid in formulating advice on employee and employer contribution rates.

**Proposed Registration Rules for Pension Plans**

It was proposed by the Federal Minister of Finance in March 1988 that many of the pension plan registration rules, currently found in a Revenue Canada information circular, be encoded in the Income Tax Act. The proposed changes will impact on the plan in several ways, most significantly the maximum pension limitation, which will likely reduce costs for future service.

In December 1988, the Board recommended to Alberta Treasury that an actuary analyze the effects on the plan of the proposed registration requirements. As of December 31, 1988, this analysis was in abeyance pending finalization of the federal proposals.

**Cost of Living Adjustments to Pensions**

Currently, cost of living adjustment (COLA) to pensions and deferred pensions are granted on an ad hoc basis by the government. In December 1988, the Board recommended that COLA of 2.0 percent be granted effective January 1, 1989. The actual adjustment was 2.0 percent. The Board also recommended that a formula for provision of COLA be encoded in legislation.

## Appendix A

# Excerpts from the Act

The following excerpts of the Public Service Management Pension Plan Act define the make-up and responsibilities of the Public Service Management Pension Plan Board.

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**Establishment, composition, term of office, etc.** 5

(1) There is hereby established a board known as the Public Service Management Pension Plan Board.

(2) The Board shall consist of not fewer than 5 persons appointed members of the Board by the Lieutenant Governor in Council.

(3) The Lieutenant Governor in Council shall appoint 1 of the members of the Board from among participants.

(4) A member of the Board holds office for the term fixed in relation to him by the Lieutenant Governor in Council.

(5) The Minister may prescribe the remuneration and expenses to be paid to members of the Board.

(6) The Board may make rules respecting the calling of and the conduct of business at its meetings.

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**Chairman and Vice -Chairman** 6

(1) The Lieutenant Governor in Council shall designate one of the members of the Board to be the chairman and another member to be the vice-chairman of the Board.

(2) The vice-chairman shall act as chairman when the office of chairman is vacant and when the chairman is absent or unable to act.

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**Support Services** 7

The Minister shall provide such supplies, services and accommodation as he considers necessary to enable the Board to fulfil its objects.

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**Objects of the Board** 8

The objects of the Board are

(a) to conduct the hearing of appeals under Part 6; [Appeals]

(b) to provide advice to the Minister under section 9;

(c) where appropriate, to extend time limits and treat benefit choices as revoked under section 10;

(d) to exercise and perform any other powers and duties assigned to it by this Act and the regulations;

(e) to perform any other duties relating to the Plan that are assigned to it by the Minister.

**Advisory functions of the Board**

The Board may advise the Minister respecting any matters relating to the Plan, including

9 (a) the adequacy of contributions to meet benefits,
(b) adjustments to pensions under section 27,
(c) rates of interest for the purposes of the Plan,
(d) benefits,
(e) reciprocal agreements,
(f) recognition of prior service,
(g) eligibility and participation in the Plan, and
(h) the actuarial tables prescribed or to be prescribed by the Minister.

**Board's power to extend time limits, etc.**

10 (1) Where
(a) a person fails to meet a time limit under the Plan,
(b) the failure will or could result in a person's obtaining different benefits than those he would have obtained had the time limit been met, and
(c) the Board is satisfied that the failure results from circumstances that import no material fault on the part of that person,

the Board may, on application to it, extend the time limit.

(2) Where
(a) the circumstances set out in subsection (1)(a), (b) and (c) apply,
(b) the benefit has been received or has commenced to be paid, and
(c) the Board is satisfied that a choice, including a deemed choice, that would otherwise be irrevocable under section 40(2) could materially prejudice the best interests of the recipient or his dependants,

the Board may, on application to it, treat that choice as revoked, extend the time limit for making the choice and order any consequential adjustments in the benefits.

(3) Where
(a) a benefit choice has been made, and
(b) the Board is satisfied that
(i) the choice communicated to the Minister was not that which the person making the choice actually intended, and
(ii) the application mentioned in this section does not result from a change in a person's circumstances affecting the choice,

the Board may, on application made to it within 3 months from the date when the benefit was received or commenced to be paid, treat the choice as revoked, substitute for it the choice that, in the Board's opinion, the person originally intended to make and order any consequential adjustments in the benefits.

**Appeal to the Board**

35 (1) A party aggrieved by a decision of the Minister under or in relation to Parts 2 to 5 [Participation, Contributions, Pensionable Service, Benefits] or the prescribed provisions of the regulations, other than a decision under section 32 [i.e. the entering into and terms of reciprocal agreements] or one that could be the subject matter of an application under section 10, may appeal against that decision to the Board.

(2) A party wishing to appeal to the Board under this section must serve the chairman of the Board with a notice of appeal in the form prescribed by the Minister within 30 days of being notified in writing of the decision appealed against or within such longer period as the Board may, on application, allow.

(3) The notice of appeal must specify the decision appealed against and the grounds of appeal.

(4) The Board may identify persons who may be interested in the appeal and may give directions as to the persons to be served with the notice of appeal, whether or not they are parties.

(5) For the purpose of conducting an appeal under this section, the Board

(a) has all of the duties, powers, privileges and immunities given to a commissioner appointed under the Public Inquiries Act by sections 3, 4, 7 and 9 of that Act, and

(b) shall be deemed to be a person for the purposes of section 1(a) of the Administrative Procedures Act.

(6) The Board may confirm, vacate or vary the decision appealed against.

(7) The Board shall serve the appellant and persons who received a notice of appeal with a copy of its decision, including the reasons for the decision.

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**Appeal to Court of Queen's Bench**

36 (1) A party aggrieved by a decision of the Board under section 35 may, within 30 days of the date of service of the Board's decision on him or such longer period as the Court may allow, appeal to the Court of Queen's Bench on a question of law or jurisdiction.

(2) The procedure in an appeal to the Court of Queen's Bench shall be the same as that provided in the Alberta Rules of Court for applications by originating notice.

(3) The Court of Queen's Bench, on hearing the appeal, may confirm, vacate or vary the decision of the Board or make any order it considers just.

## Appendix B

# Overview of the Plan

The terms of the plan are as specified in the Public Service Management Pension Plan Act. The Plan is a contributory defined benefit plan with payment of all benefits guaranteed by the Government of Alberta. Employees are required to make current service contributions at 5 percent of salary. Employers must contribute an amount equal to 9 percent of each participant's salary.

Pension benefits are based on two percent of the highest average pensionable earnings for five consecutive years times the number of years of pensionable service. The normal form of a pension is for the life of the member. If the pensioner has a spouse, the benefit payable to a surviving spouse is 75 percent of the pension that was payable to a pensioner. Optional forms of pension on an actuarial equivalent basis are available subject to the "spousal protection" provisions. Cost of living adjustments (COLA) to pensions may be granted on an ad hoc basis by the government.

Participants may retire at any time after age 55 without reduction in the amount of pension if five years of pensionable service has been accumulated. Normal pensionable age is 65 years, however there is no mandatory retirement age.

The Plan also makes provision for those members who die prior to retirement and have accumulated at least five years of pensionable service. In such cases the surviving spouse is entitled to either a spousal pension or a lump sum benefit. The spousal pension is equal to the survivor benefit of a non-reduced joint life pension. A beneficiary other than a spouse must accept a lump sum benefit.

**Membership Statistics**

At March 31, 1988 there were 14 employers participating in the Plan, 4,742 active contributors, 1,604 pensions in payment, and 328 former participants with funds on deposit. The average pension in payment was $1,944 per month to a former participant and $1,173 per month to a surviving spouse.

**Pension Fund**

The Pension Fund was established in 1981 by a transfer of $1,100 million from the General Revenue Fund. The Fund will help meet the costs of pension benefits being earned under the six plans administered and guaranteed by the province.

At March 31, 1988, the Pension Fund had assets of $3,995 million comprising a diversified portfolio of government and corporate bonds, money market securities, mortgages and equities.

For all plans in 1987-1988 the contributions made by employers and employees exceeded the benefits paid by $107 million. The comparable amount for the previous year was $138 million. In addition, the Fund earned $389 million in income, resulting in a net increase in fund equity of $496 million.

For the Public Service Management Pension Plan, 1987-1988 was the first year in which benefits paid exceeded contributions. Benefits paid were $36 million compared to combined employee and employer contributions made for the year of $33 million.

**Actuarial Valuation**

Independent actuarial valuations of the six government administered pension plans were commissioned by Alberta Treasury as at March 31, 1988. The purpose of the valuations was to quantify the total obligation of the Alberta Government in respect of its guarantee of the benefits provided by the plans.

The estimated accrued liabilities of all six plans were $8,916 million. These liabilities compare to Pension Fund assets of $3,995 million leaving an unfunded liability of $4,921 million as at March 31, 1988. The estimated accrued liability attributable to the Public Service Management Pension Plan was $1,240 million as at March 31, 1988.

The normal actuarial cost of the Public Service Management Pension Plan shown by the March 31, 1988 valuation was 22.4 percent of payroll using the attained age acturarial cost method. Using the unit credit actuarial cost method, the cost was 20.6 percent of payroll.

It was assumed in performing the valuations that ad hoc cost of living increases to pensions and deferred pensions would be granted annually at a rate equal to 75 percent of inflation.